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FM AMEMBASSY HARARE
TO RUEHC/SECSTATE WASHDC 3536
RUCNSAD/SOUTHERN AF DEVELOPMENT COMMUNITY COLLECTIVE
RUEHUJA/AMEMBASSY ABUJA 2091
RUEHAR/AMEMBASSY ACCRA 2338
RUEHDS/AMEMBASSY ADDIS ABABA 2456
RUEHRL/AMEMBASSY BERLIN 0970
RUEHBY/AMEMBASSY CANBERRA 1734
RUEHDK/AMEMBASSY DAKAR 2089
RUEHKM/AMEMBASSY KAMPALA 2510
RUEHNR/AMEMBASSY NAIROBI 4942
RHEHAAA/NSC WASHDC
RHMFISS/EUCOM POLAD VAIHINGEN GE
RUEHGV/USMISSION GENEVA 1605
RUZEJAA/JAC MOLESWORTH RAF MOLESWORTH UK
RHEFDIA/DIA WASHDC
RUEAIIA/CIA WASHDC

UNCLAS SECTION 01 OF 03 HARARE 000905

AF/S FOR B. WALCH
ADDIS ABABA FOR USAU
ADDIS ABABA FOR ACSS
NSC FOR SENIOR AFRICA DIRECTOR B. PITTMAN
TREASURY FOR D. PETERS
STATE PASS TO USAID FOR L.DOBINS AND E.LOKEN
COMMERCE FOR BECKY ERKUL

SIPDIS

E.O.12958: N/A
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SUBJECT: ZIM NOTES 10-03-2008

1. SUMMARY

Topics of the week:

- Negotiations Stalled over Ministries...
- Food Situation Bleak...
- Tsvangirai and UNDP Discuss Plans...
- Will State Universities Open?...
- Global Fund Audit Begins...
- Tsvangirai Still Without Passport...
- Former Soccer Star in Barracks...
- Bank Transfers Suspended...
- New Bank Notes Issued...
- Food Inflation - A Trillion Percent...
- Air Zimbabwe Charges Business Fares In Forex...
- RBZ Issues 570 Foreign Exchange Licenses to Shops...
- Exporters' Forex Retention Rate Increased...
- Timber Company Hit by Labor Shortage...
- Plummeting Production in Cement and Gold Industries...

2. Price Movements-Exchange Rate and Selected Products

Parallel rate for cash more than quadrupled to Z\$4,500:US\$1

Bank transfer rate increased fivefold again to Z\$1,200,000:US\$1
against inter-bank average of Z\$154:US\$1

Bread on the parallel market more than doubled to Z\$4,000

Sugar shot up ninefold to \$9,000/2kg

On the Political/Social Front

¶3. Negotiations Stalled over Ministries... MDC and ZANU-PF continue to disagree on the division of ministries, with finance, home affairs, local government, and foreign affairs still outstanding. The principal sticking point appears to be home affairs. ZANU-PF is concerned that MDC leadership of home affairs could result in investigations and prosecutions of ZANU-PF officials for corruption and other misdeeds. Mugabe and Tsvangirai met briefly after Mugabe returned from New York on Monday; the two were unable to overcome the impasse. The MDC appealed to SADC to become re-involved in mediation and the new South African government has given former president Mbeki its support to continue as mediator. See Harare 889, 890, and 895.

¶4. Food Situation Bleak... National assessments show this year's maize yield is the lowest on record and the sorghum yield was only 60 percent of last year's. In addition, there is a critical shortage of seeds and fertilizer. It is already too late to procure, ship, and distribute these inputs that are needed by the end of October for planting with the first rains.

¶5. Tsvangirai and UNDP Discuss Plans... This week, UNDP unveiled a 230-page economic recovery plan to diplomats and World Bank officials. This came after Tsvangirai shared his priorities with members of the Multi-Donor Trust Fund on September 26. Separately, Tsvangirai discussed his 100-day plan, which has not yet gone public. See Harare 894 and 895.

¶6. Will State Universities Open?... After initially delaying classes indefinitely, UZ now says classes will start on October 6.

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However, there is no agreement with lecturers on pay, only parts of the campus have water, and power outages are routine. At the National University of Science and Technology in Bulawayo the Vice Chancellor told us they did not have enough money to start classes. The only universities operating normally are three private schools. This is just the latest blow to Zimbabwe's once highly-regarded education system.

¶7. Global Fund Audit Begins... This week the Global Fund's Office of the Inspector General began a three-week audit mission to evaluate the operations of the Principal Recipients and their interactions with the Country Coordinating Mechanism, Local Fund Agent, Fund Manager, and the Sub-Recipients. Approximately \$6 million of Global Fund resources have been tied up in the Reserve Bank of Zimbabwe since November 2007.

¶8. Tsvangirai Still Without Passport... More than three months after filing an application, Tsvangirai continues to wait for a new passport. Subsequent to the power-sharing agreement, he applied for a diplomatic passport. In recent months, he traveled in the region using two separate emergency travel documents with unusually short validity. Reportedly, the responsible office claimed it ran out of materials to produce passports, but senior officials working there said hundreds of passports have been issued in recent months. In 2004, Olympic swimmer Kirsty Coventry was given a diplomatic passport after winning three medals in Athens.

¶9. Former Soccer Star in Barracks... Masimba Dinyero, Zimbabwe's best footballer at the pinnacle of his soccer career in 1989, was ordered to police barracks for three weeks. During a casual discussion with fellow policemen, Dinyero allegedly criticized President Mugabe for continuing to cling to power while police officers starve.

On the Economic and Business Front

¶10. Bank Transfers Suspended... In an apparent belief that skyrocketing prices are based on the galloping foreign exchange rate for inter-bank transfers, the RBZ suspended inter-bank transfers with effect from October 3, 2008. The suspension is likely to result in a logjam in Zimbabwe's payment system as cash is also not readily available.

¶11. New Bank Notes Issued... With mind boggling inflation and growing public disgruntlement over the inability of the Reserve Bank to supply the market with enough cash, the Reserve Bank introduced new Z\$10,000 and Z\$20,000 bank notes on Monday to match the new withdrawal limit of Z\$20,000 (roughly US\$4 at the street rate). The paper quality and level of security features, especially on the larger note, are poor as the RBZ scrambles to replace high-quality secure paper from Germany. Bank lines were in the thousands on Monday and Tuesday as Zimbabweans waited to withdraw their cash and police maintained order. Despite some scuffles, most bank lines were calm and orderly. By week's end, the lines were returning to "normal."

¶12. Food Inflation - A Trillion Percent... As we observe prices from bus fare to food rising in the course of a single day, one private sector report put the year-on-year rate of food inflation in September at 1.1 trillion percent and the month-on-month rate at 26,385%. A new hyperinflation index developed by Prof. Steve Hanke of The Johns Hopkins University puts the current rate of inflation at 531 billion percent. See www.cato.org/zimbabwe

¶13. Air Zimbabwe Charges Business Fares In Forex... In yet another move toward dollarization, AirZim announced that it would charge

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business class fares in foreign currency to raise funds for spares and fuel, as 90% of the company's operational expenses are in foreign exchange. Air Zimbabwe introduced fares in forex a half year ago, only to be forced to revert to local currency soon after.

¶14. RBZ Issues 570 Foreign Exchange Licenses to Shops... Removing the main stumbling block to the opening of foreign exchange shops, the RBZ is allowing licensees 90 days to pay the US\$20,000 license fee. The first supermarkets in upscale Harare neighborhoods shifted to mostly forex-priced goods this week.

¶15. Exporters' Forex Retention Rate Increased... Typical of RBZ Governor Gono's policy pendulum swings, he raised to 75% the foreign exchange that exporters are allowed to retain, effective September 1, after having lowered it to 55% on August 1. The Confederation of Zimbabwe Industries welcomed the move, stating that it was long overdue.

¶16. Timber Company Hit by Labor Shortage... An acute shortage of labor vexed Border Timbers Ltd in the year ending June 30, 2008, as the Mutare-based company bled labor to illegal gold panning and diamond digging. Frequent power outages also plagued the company and illegal settlers continued to set timber plantations on fire to clear land to grow maize. Exports improved somewhat, but the overvalued exchange rate will likely erode profitability.

¶17. Plummeting Production in Cement and Gold Industries... Domestic production of cement fell 26% in the first half of 2008 and export volume declined 56% at Lafarge Cement due to power cuts and shortages of spares and key raw materials. Gold production at Falcon Gold fell 71% in the nine months to end-June 2008.

Quotes of the Week

¶18. MDC Spokesman Nelson Chamisa on the current impasse in talks: "We want to share power. But Mugabe wants to swallow the MDC. We will not allow that. He wants all the key ministries - finance, home affairs, defense, information, foreign affairs, justice and even women and youth." The Guardian, Tuesday October 30.

¶19. Robert Mugabe on the talks: "We had to have these talks because when we went to vote in March, some of you remained in bed instead of going out to vote. Some of you voted wrongly." Harare Tribune, Monday September 29.

DHANANI